



Office of the City Auditor

Check Requisition Audit Report No. 0140

October 19, 2001

The City Auditor's Office found that internal controls governing the preparation, submittal, authorization, and subsequent processing of check requisitions are not sufficient to adequately safeguard City assets. Financial Services is in the process of establishing policies and procedures that will address these issues.

CITY COUNCIL

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Mary Manross

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"Most Livable City"

U.S. Conference of Mayors

OFFICE OF
CITY AUDITOR

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October 19, 2001

To the Most Honorable Mary Manross, Mayor
and Members of the Scottsdale City Council

Transmitted herewith is the report of our evaluation of
the City of Scottsdale Check Requisitions, Report No.
0140. This work is a component of a Purchasing Audit.

The Financial Services General Manager and
Accounting and Budget Director have read the audit
report and concur with the overall findings. Financial
Services is working to revise the check requisition
policies and procedures to make them easier to
understand and use.

During our audit, several issues needing further work
came to our attention.

1. We noted that the City uses independent instructors
for leisure education classes offered by Community
Services. A boilerplate contract with each instructor
documents the arrangement and services are paid
with a check requisition. We noted that services
provided under these arrangements, in some
instances, exceed \$20,000 in a calendar year.

Both the IRS and the State of Arizona have
extensive criteria to consider before determining
that a worker is an employee or an independent
contractor. Due to possible tax liability issues, as
well as workman's compensation and other
concerns, we believe that a review of this practice
should be undertaken to ensure that the
employment status has been correctly determined,
and the contract currently used adequately protects
both the City and the contract instructors.

2. We noted check requisitions to multiple vendors for cell phone, pagers, and other communication uses. According to the Purchasing Director, the City currently has two approved vendors. However, we noted that it does not appear that these vendors are consistently used throughout the organization.

While this audit was being concluded, the City Manager initiated a review of the use of cell phones and pagers to determine if improvements are possible. As well, a potential audit of cell phone controls was discussed with the Audit Committee and has been included on the proposed 2001/2002 audit plan.

3. We also noted a situation in which a volunteer at the Police Department receives mileage reimbursement to monitor parking in spaces specifically designated for use by persons with physical disabilities. We inquired whether Risk Management conducted any review or assessment of the risk to the City or the volunteer participating in this program. According to Risk Management, this assessment is left to the individual departments.

We believe it would be prudent for Risk Management to review the use of volunteers within the organization, particularly those that use their personal vehicle for City business. Risk Management should conduct an assessment of the risk associated with the job duties performed, and evaluate whether or not the City, as well as the volunteers, are adequately protected while performing their assigned duties.

If you need additional information or have any questions, please contact us at 480-312-7756.

Respectfully submitted,



Cheryl Barcala, CPA, CIA, CFE, CGFM, CISA, CISSP
City Auditor

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EXECUTIVE SUMMARY

The City Auditor's Office initiated this audit to evaluate the internal controls over the check requisition process. The start of the audit coincided with efforts undertaken by Financial Services staff to clarify the appropriate use of check requisitions within the organization. As a result, while we were conducting our work, Financial Services implemented some additional procedures that are in place now, but were not in effect during the period selected for our audit.

Fieldwork commenced in April 2001 and concluded in May 2001. Stella Fusaro, Auditor-in-Charge, Gail Crawford, and Michael Spletter performed the work. Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing as required by Article III, Scottsdale Revised Code §2-117 *et seq.*

The objectives of the audit were to:

- Determine if check requisitions are processed in compliance with the Procurement Code, guidelines, policies, and procedures.
- Determine if guidelines, policies, and procedures are sufficient to provide adequate controls.
- Determine if check requisitions are authorized and supported with adequate documentation.

To make these determinations we:

- Evaluated guidelines, policies, and procedures to determine if they are sufficient to provide adequate controls.
- Selected a sample of check requisitions and reviewed the transaction and supporting documentation for compliance with established guidelines.

The Financial Services General Manager and the Accounting and Budget Director have read the audit report and concur with the overall findings. Financial Services management is in the process of implementing recommendations and revising policies and procedures to clarify requirements. The written management response can be found in the Appendix.

As changes are being implemented, we believe this to be an appropriate time for signature authority levels to be re-evaluated. While we did not specifically look at the appropriateness of the signature authority levels, the limits currently

in existence date back to at least December 1996, and it may be beneficial to determine if they are still meeting the needs of the organization.

As well, we believe that it would be prudent for the City to develop a centralized database or other means of identifying current City contracts that can be used by City staff to acquire goods or services. During our audit, we had to rely on research conducted by Purchasing staff when we questioned whether there was an existing contract for goods or services. According to Financial Services staff, this issue has already been identified and is being pursued.

We also noted that the City would benefit from re-evaluating the process used to identify situations that warrant a contractual arrangement for the purchase of goods or services. During our preliminary survey, we inquired about the status of five vendors from which the City had purchased more than \$20,000 in goods or services during calendar year 2000. Of these, only two were vendors in which existing contracts were available.

Results in Brief

During calendar year 2000, the Accounts Payable (A/P) Division of Financial Services processed payment requests for approximately 47,000 line items¹, exclusive of purchase orders. Of these line items, approximately 750 were in excess of \$20,000 and approximately 2,600 fell between \$2,000 and \$20,000. The remaining items were less than \$2,000.

According to Financial Services, the City's value of "Take Ownership" brings an expectation that departments act responsibly in their budgeting and procurement decisions and ensure accuracy of check requisitions submitted for payment. Financial Services provides assistance when needed, but focuses on processing the transaction accurately and in a timely manner so that goods or services can be obtained, and the vendor paid according to agreed upon terms.

A/P has internal policies and procedures that outline how to process a check requisition and both A/P and Purchasing have information on the City's Intranet that provides guidance regarding the proper use of a check requisition form. As well, Financial Services has established a signature authority administrative guideline that sets out authorization limits and the process for delegating signature authority.

¹ Line item counts will not be representative of the number of check requisitions due to the fact that more than one line item may be reflected on a single check requisition.

Our audit, however, found that the City would benefit from the implementation of additional controls designed to more effectively control and monitor the expenditure of City funds. We recommend that the Financial Services General Manager initiate:

- Development of authoritative guidance that sets out appropriate use of a check requisition form and the roles and responsibilities of individuals involved in processing the document.
- Revisions to the signature authority administrative guideline to strengthen the authorization process.
- Review of the control structure over the processing of check requisitions for implementation of additional controls.
- Review of the City's Chart of Accounts to determine whether or not it would be beneficial to add additional accounts for transactions such as food and meals for City employees, holiday parties, and gifts provided to employees as incentives.

Financial Services staff has had various meetings during our audit and subsequent to the conclusion of fieldwork to discuss desired changes. Management comments and implementation status of recommendations can be found in the Action Plan on the following page. The entire management response can be found in Appendix A.

Action Plan

| No. | Recommendations | Management Response | Implementation Status |
|-----|--|---|----------------------------------|
| | The Financial Services General Manager should: | It should be noted that Check Requisitions, in almost every instance, are processed subsequent to goods being received or services rendered to the City. Payables staff attempt to meet these City obligations and process all payments in a timely and efficient manner to: 1) meet statutory payment requirements; 2) gain payment discounts when possible to reduce costs to the City; and, 3) maintain positive working relationships with our vendors. We were pleased to note that no findings indicated that any payments were late, directed to the correct vendor, duplicative, and for incorrect amounts. Our recent external financial audit, by Cronstrom and Trbovich, P.C., also noted no material internal control exceptions to our payables process and provided a clean audit opinion related to the City's Financial Statements. | |
| 1 | Initiate development of a Citywide guideline outlining the appropriate use of a check requisition, detailing the policies and procedures for processing the document, and setting out the roles and responsibilities for individuals involved in initiating, reviewing, and authorizing the requisition. | We concur. The Department is currently creating a Citywide Administrative Guideline for the appropriate use of the check requisitions that clearly define the roles and responsibilities for individuals involved in initiating, reviewing, and authorizing the requisition and include the policies and procedures for processing the document. We expect the AG will be completed by October 2001. | To be completed by October 2001. |
| 2 | Initiate revisions to Administrative Guideline (AG) #285 and implement procedures to strengthen the authorization process. The AG should: | We concur. The Department is currently revising Administrative Guideline #285 to incorporate audit recommendations. We expect that the revisions to the Administrative Guideline will be completed by October 2001. Many of the audit findings relate to transactions of immaterial amounts and relatively insignificant issues so we will carefully consider internal control procedures changes to ensure that the cost of implementation does not outweigh the benefits received by the City and its business partners | |
| | a)Address signature authority of City Manager, Assistant City Managers, Deputy City Manager, and other Department or Division | We concur. | To be completed by October 2001. |

| No. | Recommendations | Management Response | Implementation Status |
|-----|--|---|----------------------------------|
| | Managers who do not report to a General Manager or Charter Officer. | | |
| | b)Require the City Manager/Assistant City Managers/Deputy City Manager to review and approve the signature delegation of those individuals who report to them. | We concur. | To be completed by October 2001. |
| | c)Place limits on delegation, including the number and the level at which Level 1 authority can be delegated. | We concur. | To be completed by October 2001. |
| | d)Outline responsibilities when preparing or authorizing a document. | We concur. | To be completed by October 2001. |
| | e)Make a distinction between those authorized to sign expenditure related documents and those authorized to sign other administrative forms. | We concur. | To be completed by October 2001. |
| | Procedures should require: | | |
| | f) Names be printed or typed on all check requisitions so that authorization can be verified. | We concur. | To be completed by October 2001. |
| | g)That the Signature Authorization Form be updated periodically and anytime an employee leaves or transfers within the City. | We concur. | To be completed by October 2001. |
| | h)That Signature Authorization Forms include signatures and dates. | We concur. | To be completed by October 2001. |
| | i) Adequate segregation of duties between individuals preparing the form, and the authorized signer. | We concur. The Department will require that all check requisitions are initiated and approved by different individuals. | To be completed by October 2001. |
| | j) Adequate segregation of duties between budget liaisons/department advisors and those authorizing check requisitions. | Regarding recommendation j, adequate segregation of duties is ideal. However, it is not always practical nor advantageous to the City. Based on the policy change resulting from 2i above, segregation between initiator and approver of the check requisition should | To be reviewed in October 2001. |

| No. | Recommendations | Management Response | Implementation Status |
|-----|---|--|--|
| 3 | <p>Review the control structure for the processing of check requisitions and implement additional controls. These controls should include:</p> <p>a) Training.</p> <p>b) Statements on check requisition forms indicating the significance of the signature.</p> <p>c) Guidance on adequate documentation.</p> <p>d) Segregation of duties.</p> <p>e) Control over distribution of checks.</p> <p>f) Use of consistent check requisition forms.</p> <p>g) Verification of signature authorization and account coding for expenditures over a certain threshold.</p> | <p>provide adequate control to insure that proper monitoring is performed (regardless of the employee's position/job title).</p> <p>We concur. We will continue to seek ways to improve our processes, procedures and policies while maintaining positive vendor relationships. We are in the process of developing new training and communication to help educate City staff on the proper procurement methods and adherence to our internal control procedures. Many of the audit findings relate to transactions of immaterial amounts and relatively insignificant issues so we will carefully consider internal control procedures changes to ensure that the cost of implementation does not outweigh the benefits received by the City and its business partners (vendors.)</p> <p>We concur.</p> <p>We concur.</p> <p>We concur.</p> <p>We concur.</p> <p>We concur.</p> <p>We concur.</p> <p>We concur.</p> | <p>To be completed by December 2001.</p> <p>To be completed by December 2001.</p> <p>To be completed by December 2001.</p> <p>To be completed by December 2001.</p> <p>Implemented.</p> <p>Implemented.</p> <p>To be completed by December 2000.</p> |
| 4 | <p>Implement procedures to ensure better oversight over the processing of check requisitions. These procedures should:</p> | <p>We concur. Procedures to ensure that all expenditures comply with the procurement code will be revisited and enforced. In addition, we are in the process of implementing a training program to help ensure that the most cost effective method of</p> | <p>To be completed by December 2001.</p> |

| No. | Recommendations | Management Response | Implementation Status |
|-----|---|--|------------------------------------|
| | | payment for small dollar transactions is chosen. | |
| | a)Ensure compliance with the Procurement Code. | We concur. | Implemented. |
| | b)Encourage use of the most cost effective method of payment for small dollar transactions. | We concur. | To be completed by December 2001. |
| | c)Reject transactions that do not have appropriate signature authorizations or sufficient documentation. | We currently reject transactions that do not have appropriate signature authorizations or sufficient documentation in accordance with recommendation c. These practices will be continued. | Implemented. |
| | d)Ensure that material transactions are monitored for sufficient available funds and correct account coding prior to payment. | We concur. | To be implemented in October 2001. |
| | e)Require that all payments associated with contracts and Inter-governmental Agreements (IGA), regardless of the authority to enter into the agreement, be tracked against a purchase order and processed in the same manner as other contracts. | We will review our policy regarding the appropriate uses of check requisitions. | To be completed by October 2001. |
| 5 | Initiate a review of the City's Chart of Accounts to determine whether or not it would be beneficial to add additional accounts for transactions such as food and meals for City employees, holiday parties, and gifts provided to employees as incentives. | We concur. | Completed October 2001. |
| 6 | Set up a commodity account to record inventory purchased for re-sale in order to segregate these types of expenditures from those related to park operations. | We concur. | Completed October 2001. |

BACKGROUND

According to Scottsdale Revised Code (SRC), Article 4, Division 1, the City Finance Department is the central agency for the uniform processing and development of all fiscal, accounting, and budgetary functions of the City.

The City's Procurement Code, and rules established by the Purchasing Division, set out how to acquire goods and services. With some exceptions, goods and services over \$2,000 must be acquired in cooperation with the Purchasing Department. These transactions are assigned a Purchase Order (PO) and payment to the vendor is processed by A/P based on the PO number. The insert on page 12 summarizes significant points related to the Procurement Code.

When a purchase falls outside the scope of the Purchasing Department, there are alternative methods available to pay for the needed item or service. These items are acquired using a check requisition, purchasing card, or, if the item is under \$50, petty cash. Check requisitions, the subject of this audit, serve as the means of paying transactions such as:

- Advertising.
- Reimbursements to employees.
- Dues and subscriptions.
- Intergovernmental transactions.
- Pagers and cellular phones.
- Legal transactions such as purchases of land.
- Utilities.
- Contractual arrangements such as Rural Metro.
- Debt Service.

Requisitions are prepared at the department/division level using blank forms available on the City's Intranet or other forms maintained by the department/division. Forms do not have a system-generated number, so each department/division assigns an identifying number according to their department procedures. City procedures require the form to be signed by a person with signature authority and supporting documentation is required. The insert on page 13 shows the form used for these transactions.

When completing the form, the department must indicate the fund type, the account (the type of expenditure), and the center (the organization unit to which the account information specifically relates). Departments are to use the Chart of Accounts to determine the appropriate account number. The insert on the next page shows an example of the information provided from the Chart of Accounts.

| | |
|---|-------|
| Communications | |
| Postage | 52210 |
| Telephones/Base | 52220 |
| PC Dial – In Access | 52221 |
| Long Distance | 52222 |
| Traffic Signal Lines | 52224 |
| Pagers/Cellular Phones and Specialty Lines | 52225 |
| Travel, Training, and Conferences | |
| Overnight Training/Business Conference Travel | 52230 |
| Tuition Reimbursement | 52235 |
| Same Day Training/Business Conferences | 52245 |
| Printing, Duplication, and Filming | |
| Printing and Graphics Services | 52270 |
| Photocopy Charges | 52275 |
| Filming and Microfilming | 52279 |
| Maintenance and Repair | |
| Cleaning and Waste Removal | 52320 |
| Mowing | 52322 |
| Maintenance | |
| Buildings and Structures | 52330 |

SOURCE: City of Scottsdale Chart of Accounts

The insert on the following page shows examples of account descriptions.

Communications

52210 Postage

This includes all mailing costs, along with messenger service and express delivery, U.S. Postal Service, and others (e.g., Federal Express).

52220 Telephones/Base

This includes base costs for telephone service, as well as charges for facsimile equipment lines and modem lines.

52221 PC Dial-In Access

This account is used for remote personal computer access to City computer applications.

52222 Long Distance

This is used for all long-distance telephone and fax charges.

52224 Traffic Signal Lines

This account is for traffic signal line expenses.

52225 Pagers, Cellular Phones and Specialty Lines

This includes pager service, initiation charges, monthly access and air-time usage charges for cellular phones, and other miscellaneous charges for specialty lines, such as alarms, not included in above account 52220.

Travel, Training, and Conferences

52230 Overnight Training/Business Conference Travel

This account is used to cover all travel-related expenses incurred by City employees when City employees cannot travel, conduct City business, and return within a full workday. This includes expenses such as registration fees, room, meals, parking, transportation, and mileage.

52235 Tuition Reimbursement

This includes payment to employees for reimbursement of tuition fees for job-related courses or programs.

52245 Same Day Training/Business Conferences

This account is used to record the cost of expenses while on official City business *locally*. This account is also used for same-day business activity such as local professional organizations (where membership is paid by the City), business conference registration fees, staff retreats, and mileage.

Printing, Duplication, and Filming

52270 Printing, Photocopy, and Graphics Services

This includes typesetting, printing of forms, brochures, reports, book binding, and blueprints; printing tabulating forms and cards, and printing or graphics-related products produced by the Graphics shop and/or outside vendors.

52275 Photocopy Charges

This account is for in-house Xerox and Ricoh Charges. This account is to be used by Financial Services only.

52279 Filming and Microfilming

This includes outside film processing, aerial photos, and microfilming. Storage is charged to account 52190.

Maintenance and Repair

52320 Cleaning and Waste Removal

This includes outside services, such as transfer costs, service calls for sewer stoppage, and servicing septic tanks.

52322 Mowing

This account is used to cover costs for mowing, scalping, and cleaning of City parks and grounds.

52330 Maintenance – Buildings and Structures

This includes outside services for repairing City buildings and structures.

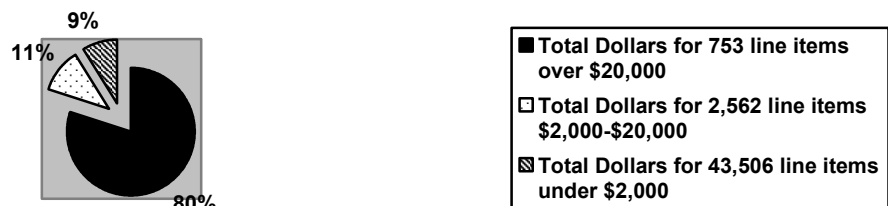
SOURCE: City of Scottsdale Chart of Accounts

A/P has a stated goal of processing check requisitions within three days of receipt. Prior to processing, A/P checks to make sure documentation is attached, verifies that the form has a signature at the appropriate authorization level, assigns a vendor number and the date to be paid. Pay dates are normally 25 days from the date of the invoice unless there is a special request noted. Each line item on the check requisition is then keyed into Smartstream, the system used by Financial Services. The system allows multiple check requisitions to the same vendor to be combined and prepares a check for payment at the established time.

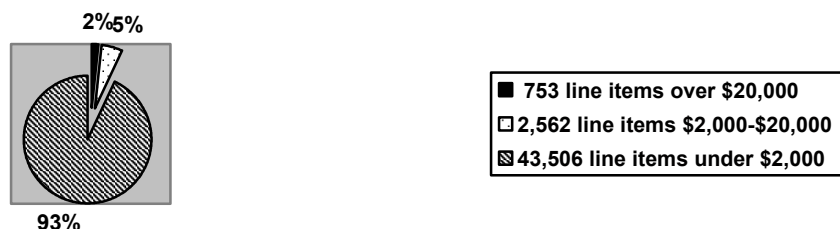
Some check requisitions such as payments for grants, trusts, deposit refunds, payments over \$10,000, and Capital Improvement Project payments over \$50,000 require additional authorization by Budget and/or Accounting. Before these requisitions are processed, A/P forwards them to the appropriate person for approval.

In calendar year 2000, approximately 47,000 line items with a value of close to \$144 million were processed using check requisitions. The charts below show the volume processed within ranges of value.²

Check Requisition Dollar Volume



Check Requisition Line Item Volume



SOURCE: Audit Analysis of data provided by Financial Services

² This information is an estimate. Line items include transactions processed as travel requisitions, utility refunds, and other miscellaneous transactions.

Procurement Code Key Points

SRC Division 4, an accompanying section of Article 4, established a centralized purchasing division for the purpose of purchasing materials, services and construction for the city. This ordinance established the following requirements for the Purchasing Division:

- Establish efficient procurement and surplus personal property procedures;
- Secure for the city, materials, services and construction at the lowest possible cost commensurate with quality needed;
- Exercise positive financial control over purchases;
- Clearly define authority for the purchasing function;
- Assure the quality of purchases.

According to the Procurement Code, the provisions in the Code are applicable to every purchase of materials, services and construction with public monies, including federal assistance monies. In addition, purchases are to comply with federal and state law and authorized regulations that are applicable. Contracts for construction and services related to architects or engineers to be used in connection with construction contracts are also governed by Arizona Revised Statute (ARS) Title 34.

There are three categories of contracts that are not covered by the Procurement Code. These include:

- Intergovernmental Agreements
- Agreements negotiated by the Risk Management Director or the City Attorney for the settlement of litigation or threatened litigation.
- Contracts for professional witnesses if the purpose of such contracts is to provide for professional service or testimony relating to an existing or probable judicial proceeding.


The Procurement Code also provides for the Purchasing Director to delegate authority for procurement to a department of the City. Any delegation must be in writing and state the reason for the delegation. To date, the following procurement services have been delegated.

- Routine engineering services associated with traffic and drainage projects are delegated to the Transportation General Manager or designee.
- Routine services of architects, engineers, and construction managers for Capital Projects and Improvement Districts are delegated to the Municipal Services General Manager or designee.
- Routine engineering services for Water Resource Projects is delegated to the Water Resources General Manager.
- Routine human service activities including housing, regional homeless shelters, domestic violence shelter services, senior services, human service activities provided within City facilities and legal services for low/moderate income families, is delegated to the Community Services General Manager or designee.
- Routine property and liability insurance services are delegated to the Risk Management Director.

In order to effectively manage the procurement of goods and services, the Procurement Code distinguishes categories of purchases based on dollar value. These categories are informal procurements for purchases less than \$20,000 and formal procurements when the amount exceeds \$20,000.

SOURCE: Audit Analysis

Check Requisition Form

| | | | | | | | | | | |
|---|----------------------------------|--|---------------------------------|--------------|-------------------------|--|--|-----------------------|----------------------------|-----------------------------|
| City of  Scottsdale | | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">VENDOR _____</td> </tr> <tr> <td style="padding: 2px;">INVOICE NO. _____</td> </tr> <tr> <td style="padding: 2px;">PAY DATE _____ FOR ACCOUNTS PAYABLE USE</td> </tr> </table> | | VENDOR _____ | INVOICE NO. _____ | PAY DATE _____ FOR ACCOUNTS PAYABLE USE | | | | |
| VENDOR _____ | | | | | | | | | | |
| INVOICE NO. _____ | | | | | | | | | | |
| PAY DATE _____ FOR ACCOUNTS PAYABLE USE | | | | | | | | | | |
| FROM: CENTER _____ | DATE 3/1/2000 | DATE CHECK REQUIRED 3/1/2000 | CENTER REQUISITION NO. _____ | | | | | | | |
| MAKE CHECK PAYABLE TO: _____ | | | | | | | | | | |
| ITEM # | COMPANY-ACCT-CENTER | ITEM DESCRIPTION | VENDOR NO. (MULTIPLE PAYEES) | AMOUNT | | | | | | |
| 1 | 100-03100-53020 | | | | | | | | | |
| | | | TOTAL | | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%; padding: 2px;">JUSTIFICATION / REMARKS</td> <td style="width: 60%; padding: 2px;">ATTACH APPROPRIATE DOCUMENTATION</td> </tr> <tr> <td style="height: 40px;"></td> <td></td> </tr> </table> | | | | | JUSTIFICATION / REMARKS | ATTACH APPROPRIATE DOCUMENTATION | | | | |
| JUSTIFICATION / REMARKS | ATTACH APPROPRIATE DOCUMENTATION | | | | | | | | | |
| | | | | | | | | | | |
| REQUESTED BY: EXTENSION _____ | | DELIVER CHECK TO: _____ <div style="text-align: right; font-size: small;">Accounting Approval</div> | | | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; height: 40px;"></td> <td style="width: 33%;"></td> <td style="width: 33%;"></td> </tr> <tr> <td style="text-align: center; font-size: x-small;">LEVEL 3 (\$0-\$2,000)</td> <td style="text-align: center; font-size: x-small;">LEVEL 2 (\$2,001-\$10,000)</td> <td style="text-align: center; font-size: x-small;">LEVEL 1 (\$10,000 AND OVER)</td> </tr> </table> | | | | | | | | LEVEL 3 (\$0-\$2,000) | LEVEL 2 (\$2,001-\$10,000) | LEVEL 1 (\$10,000 AND OVER) |
| | | | | | | | | | | |
| LEVEL 3 (\$0-\$2,000) | LEVEL 2 (\$2,001-\$10,000) | LEVEL 1 (\$10,000 AND OVER) | | | | | | | | |

SOURCE: Word Document available on Accounts Payable Forms Intranet Site

INTRODUCTION

A check requisition is one of several forms used by the City to pay for goods and services needed for City operations. Because it is a means of expending money, the responsibility for setting appropriate internal controls falls to the City Treasurer/General Manager, Financial Services.

The City Treasurer shall prescribe the method of preparation, approval, and disbursement of all bills, claims, and expenditures for the City.

Scottsdale Revised Code, Chapter 2

An adequate internal control structure is necessary to ensure that expenditures are:

- Appropriate and accurately reflect the cost of goods and services needed to conduct City business.
- Reviewed and authorized at a sufficient level to provide adequate oversight.
- Only processed when sufficient funds are budgeted and available within the account used to pay for the goods and services.
- Completed in compliance with the City's Procurement Code and other legal requirements.

An appropriate internal control structure is set out through the following interrelated components:

- Control environment – the tone of the organization serves as the foundation for all other components of internal control.
- Risk Assessment – the identification and analysis of relevant risks, forming the basis for managing the risks.
- Control Activities – the policies and procedures that help ensure that management directives are carried out.
- Information and Communication – the identification, capture, and exchange of information to enable people to carry out their responsibilities.
- Monitoring – the process that assesses the quality of internal control performance over time.

Our audit was designed to evaluate the existing control structure and determine the sufficiency to adequately control expenditure of City funds. Based on our review and testing, we believe the City would benefit from the implementation of more stringent controls.

The following sections will discuss the specifics that led us to this conclusion. The first section will discuss controls that we believe need to be strengthened. The final section will discuss particular items that we noted during our sample of transactions.

More Stringent Controls Would Reduce the Potential for Erroneous or Improper Transactions

Many employees are expected, as part of their duties, to process check requisitions or approve their submittal. We found, however, the City has yet to record, in the form of an Administrative Guideline (AG) or any other authoritative document, the situations in which it is appropriate to use a check requisition to pay for goods and services, and the roles and responsibilities associated with the preparing and processing this document.

To ensure that check requisitions are submitted by an individual who is authorized to process the transaction, the City established AG #285 (Signature Authority) which describes approval levels and the means of delegating signature authority. We found, however, that this guidance is not complete nor is it sufficient to result in an adequate review of transactions.

Authoritative Guidance Outlining Appropriate Use and Clarifying the Roles and Responsibilities of Individuals Processing a Check Requisition Would Enhance the Controls Over Expenditure of City Funds

When completing our work, we found that there was no documentation, such as an AG, that set out the appropriate use of a check requisition. As such, we had a difficult time determining when a check requisition should be used and when other forms of payment were more appropriate.

Documentation regarding the use of a check requisition was limited to "Frequently Asked Questions" on the A/P website, a matrix that sets out the differences in payment methods, and information on the Purchasing website listing how to process a check requisition. When we reviewed this information, we found that it often conflicts with other guidance. For example:

- Both websites outline the approval requirements for check requisitions as "a member of staff with appropriate level of authorization to sign for invoice total." However, the City's Signature Authority AG recommends that documents be reviewed and approved by at least one level of management higher than the preparer (i.e., the immediate supervisor of the requestor/preparer).

- Both the Purchasing website as well as the “methods of payment” matrix referenced on the A/P website states that check requisitions can be used to process travel and employee reimbursements. However, the City’s travel expenditure AG requires that all expenses related to travel must be processed on an “Advance Travel Request Form.” The travel guideline states that this is the only form of payment request that A/P will accept.
- Purchasing’s website states that check requisitions can be used for “Training and Class expenses” and the matrix linked on A/P’s website lists “training and class expenses” as well as “conference registrations.” Both sets of instructions fail to exclude use of the check requisition for out of town related training or conference registrations. The City’s AG on travel expenditures requires that all costs related to travel, including registration fees, be processed on an “Advance Travel Request Form” to ensure that the entire cost of the trip can be identified.

We also found that there is no guidance that precludes use of check requisitions in situations where a purchasing card or petty cash could be used.

Additionally, we noted that there are no instructions, other than the box headers, outlining how to correctly fill out the form. For example, there is nothing that would instruct the person initiating the document to sign and print their name. Without the signature of the person initiating the document, it would be difficult to determine whether the individual actually prepared the document or if someone else prepared the form and used the name of another individual as the preparer.

As well, there is no guidance regarding the roles of individuals involved in processing a check requisition. There are no instructions to the requester to verify the appropriateness of the transaction, and nothing that would serve to inform the individual of what would be considered adequate documentation. Correspondingly, there is no guidance, other than the signature authority guideline, outlining the role of the authorizer. Contrast this lack of guidance to the City’s Purchasing Card Program in which there is a training program and a guide developed specifically to educate individuals on the appropriate use of the purchasing card.

More importantly, there are no policies and procedures that address the role and responsibility of departmental budget liaisons/department advisors. These individuals are assigned the responsibility for monitoring department budgets, but there is no requirement for them to review check requisitions to verify that the correct account number is reflected. As well, there is no requirement for them to verify, prior to submittal, the availability of budgeted funds. Defining roles and responsibilities would address when a budget liaison should review check requisitions. A certain dollar threshold, for example, could be established.

In addition, we could not find anything that outlines the role of A/P in monitoring the appropriate use of check requisitions, or the purpose and responsibilities of employees in Financial Services who process and review check requisitions. We noted, according to the "Frequently Asked Questions" on the A/P website and A/P internal policies and procedures, that check requisitions over \$10,000 or those charged to a grant account will be forwarded to Accounting for additional signature. However, we could not locate any authoritative documentation that set out the purpose of the additional signature. According to staff, their role is to notify departments of the need to transfer funds. Transactions will still be processed even if funds are not available.

One of the things that can be accomplished as part of the development of a Citywide guideline is a risk assessment. This process is designed to identify and analyze risks to attempt to set moderate controls in situations of less risk and more stringent controls in areas where the risk is greater. For example, the City might consider it acceptable to require less review for transactions submitted for less than \$2,000, but require additional review for transactions greater than \$20,000. Currently, however, other than the review by Accounting for transactions over certain limits and the different levels of signature authority, there is no difference in the processing of large dollar items and those under \$2,000.

We recommend that the Financial Services General Manager initiate development of a Citywide guideline outlining the appropriate use of a check requisition, detailing the policies and procedures for processing the document and setting out the roles and responsibilities for individuals involved in initiating, reviewing, and authorizing the requisition.

City Needs to Strengthen Controls Over Authorization of the Expenditure of City Funds

The Signature Authority AG was modified last year in response to issues with signature authorization for travel expenditures. As part of this audit, we looked at the current guideline and implementation as it relates to check requisitions.

We found that the AG needs to be expanded. As currently written, it does not address the signature authority of the City Manager and Assistant City Managers or the newly created position of Deputy City Manager. As well, it fails to include other individuals such as Administrators who do not fall under the description of General Manager or Charter Officer, but have a responsibility to manage the budget of a particular area. We also noted that it does not require the City Manager or Assistant City Managers to review the delegation of signature authority of those individuals reporting to them.

Neither the AG or the Signature Authority Form requires a General Manager or Charter Officer to include themselves on the Signature Authorization Form. This Form lists who has signature authority for a particular cost center. As a result, someone relying on the Signature Authority Forms to determine signature authorization may conclude that the General Manager or Charter Officer is not authorized for the center.

We noted that the AG does not differentiate between signature authority for expenditure of funds and authorization for other types of forms such as personnel/payroll actions, time entry, or travel requisitions. As such, it does not appear that there is a means to delegate tasks such as approval of time entry without delegating expenditure authority.

In addition, we found that it does not place limits on delegation of authority. For example, it does not prohibit the delegation of signature authority to individuals who are assigned the responsibility for monitoring budgets. The duties assigned to budget liaisons/department advisors (monitoring the budget, reconciling financial information, processing corrections, etc.) are not compatible with the authorization to spend funds. With both the role to monitor budget status, as well as the ability to authorize payment of funds, there is a potential for errors or irregularities to go undetected.

Moreover, the AG does not limit the number of individuals to whom authorization can be delegated nor does it preclude delegating the highest level of signature authority to administrative or clerical staff. During our audit, we found multiple instances in which all employees within a department or division had been delegated authorization to sign for transactions up to \$2,000. We also noted one instance in which the highest level of authorization (Level 1) had been delegated to an Office Coordination Manager.

The AG also fails to address limitations in signature authority set out in other AGs. For example, the City's travel expenditure AG restricts the delegation of authorization for these expenditures to an organizational level equal or greater than that of Director or Manager. This requirement is not addressed in the signature authorization AG.

While there is some guidance regarding roles and responsibilities in the AG such as instructing the authorizer to review materials, it does not indicate what "review" means. There is no discussion or instruction that indicates it is the responsibility of the authorizer to determine that sufficient documentation exists to support the transaction or the expenditure.

We found that the AG, as currently written, and the supplemental Signature Authority Form would not be sufficient to effectively determine if the check requisition form was properly authorized. This disconnection occurs because neither the AG or check requisition form requires the authorizer to print their name under their signature and the Signature Authority Form does not require

a sample of signatures. As a result, a reviewer would be forced to make a judgment on whether the signature appears to be the name listed on the form.

Finally, we noted that the AG does not require Financial Services to be notified when an authorized signer leaves the organization or no longer fills a role that requires authorization. As well, there is no requirement for the Signature Authority Form to be updated. We found that, because the form is not dated, it would be difficult to determine when an authorization was in effect.

We recommend that the General Manager, Financial Services, initiate revisions to AG #285 and implement procedures to strengthen the authorization process.

The AG should:

- Address signature authority of City Manager, Assistant City Managers, Deputy City Manager and other Department or Division Managers who do not report to a General Manager or Charter Officer.
- Require the City Manager/Assistant City Managers/Deputy City Manager to review and approve the signature delegation of those individuals who report to them.
- Place limits on delegation including the number and the level at which Level 1 authority can be delegated.
- Outline responsibilities when preparing or authorizing a document.
- Make a distinction between those authorized to sign expenditure related documents and those authorized to sign other administrative forms.

Procedures should require:

- Names be printed or typed on all check requisitions so that authorization can be verified.
- That the Signature Authorization Form be updated periodically and anytime an employee leaves or transfers within the City.
- That Signature Authorization Forms include signatures and dates.
- Adequate segregation of duties between individuals preparing the form, and the authorized signer.
- Adequate segregation of duties between budget liaisons/department advisors and those authorizing check requisitions.

Financial Services' Role in Processing Check Requisitions and Recording of Financial Information Could Be Strengthened

Accounting controls ensure the validity and reliability of the data on the financial system and enhance accountability to the public. These controls consist of the methods and documents established to record, process, summarize, and report transactions. The quality of system-generated information affects management's ability to make appropriate decisions in controlling the department's budget.

During our audit, we looked at the controls over the processing of check requisitions. We believe there are several areas in which improvements are possible.

Training Would Reduce the Potential for Errors

Financial Services, prior to implementing the Procurement Card program, developed a specific training program for individuals who would be authorized to purchase items using this method. The individual receiving the card, as well as their supervisor, must attend a training class that educates users on what can be purchased and the correct records to keep. There is also a guide provided that explains appropriate use, rules to follow, and other ancillary guidance.

We could find no indication that a similar education program exists for individuals who will be initiating, reviewing, or authorizing check requisitions. As well, an individual who will be delegated signature authority is not required to undergo any training program designed to increase the awareness of what can be purchased through check requisitions and what documentation should be attached.

Individuals Preparing and Authorizing Requisitions Should Be Informed as to Their Role in Ensuring That the Transaction is Correct

Financial Services has included statements on many financial-related documents to remind individuals, preparing the form as well as those authorizing the document, of the significance of their signature. For transactions such as a request for reimbursement of travel expenses or the purchasing log required for purchasing card expenditures, individuals signing are instructed that their signature "certifies" that the expenditure was necessary for City business. A similar statement is not included on the check requisition form.

Adequate Documentation Should Be Required to Reduce the Potential for Errors or Irregularities

One of our most significant concerns is also one of the most easily implemented controls. This is a requirement for minimum acceptable forms of

documentation. By requiring sufficient documentation, both the individual authorizing the payment and A/P staff, responsible for processing the transaction, will have better information with which to evaluate the transaction. Requiring sufficient documentation reduces the potential for erroneous or fraudulent transactions, as well as reduces the potential for duplicate transactions.

We found that while A/P internal procedures instruct staff to verify that there is “back up” for each check requisition (unless special circumstances have been allowed for and documented), there is no guidance on what can be considered “back up.” As well, there is no documentation that would serve to instruct staff, responsible for preparing a check requisition, what would be considered acceptable documentation. During our audit, we found multiple instances in which the supporting documentation attached to the requisition was limited. In one instance, the requisition was for a payment to one of the City’s benefits providers. Supporting documentation consisted of a handwritten note with the vendor’s name and a list of the amount due. According to the A/P Manager, Human Resource Systems has previously voiced concerns about providing information that might be deemed confidential.

We also noted two payments processed for holiday parties arranged by two different divisions. One requisition was supported by a handwritten invoice from the vendor while the other was supported by a cash register receipt from the vendor. The cost of both of these arrangements exceeded the informal procurement limit and the solicitation should have been conducted by the Purchasing Department. Additionally, there should have been a contract between the City and the service provider outlining the terms and conditions of the arrangement.

As well, we noted that payments to independent contractors are processed without an invoice from the vendor that lists dates of service and services performed. We noted that, in some instances, payment to these independent contractors can exceed the informal procurement limit during a calendar year. As such, it might be prudent to set up a purchase order at the time the contract is entered. This would allow the vendor to be paid based on invoice, and eliminate the need for a check requisition.

Proper Segregation of Duties Should Be Enforced

One of the most effective means of reducing the potential for erroneous or fraudulent transactions is a requirement for segregation in duties between the preparation of the transaction and the authorization. In the case of check requisitions, this segregation of duties would be provided through a restriction that precludes the requestor and the authorizer from being the same

individual. Restrictions should also preclude the payee from being the same as the authorizer.

We found that A/P does not reject check requisitions in situations in which the requestor is also the person authorizing the payment even though the Signature Authority AG states that the person authorizing the payment should be at least one level higher than the person requesting the transaction. We also found that Financial Services does not require adequate segregation between the payee and the authorized signature. Even in unique situations such as the replenishment of Police Imprest Funds, there should be a requirement for segregation between the payee and the authorized signature.

Distribution of Checks Should Be Controlled to Reduce Potential for Funds to Be Misdirected

We noted that the distribution of checks could be improved to reduce the potential for funds to be misdirected. A/P will process a check requisition and return the check to the requester. This practice should be limited, and only in certain instances, such as the reimbursement to an employee, should the check be returned to the requester.

Transactions Submitted Using the Incorrect Payment Method Should Be Rejected

During our audit, we noted transactions processed using a check requisition that should have been rejected with instructions to process using a more appropriate form. Allowing the incorrect payment form to be used increases the potential that check requisitions will be used, intentionally or accidentally, to circumvent established purchasing rules. As well, there is an increased risk that transactions will not be tracked against open purchase orders.

The Check Requisition Form Should Be Controlled to Avoid Confusion

We noted that the form of the check requisition document itself is not controlled. It appears that departments were able to obtain a stock of pre-printed forms and the form available on the intranet was not used consistently.³ Many requisitions in our samples reflected out-of-date signature authorization levels. As well, there were non-standard requisitions, including forms with customized signature levels. We could find no authority for these customized authorization levels.

Additional Controls Need to Be Implemented to Reduce Potential for Duplicate Transactions

In addition to concerns with the check requisition form, we found that controls could be enhanced to prevent processing duplicate payments. According to

³ According to A/P, all pre-printed forms have been destroyed and only the on-line version will be accepted.

A/P written procedures, requisition requests such as conference registrations, are to be processed with the check requisition number as the invoice number. Use of the check requisition number as the invoice number, would not result in the assignment of an identifying number that would generate a flag should a duplicate request be processed. According to the A/P Manager, current practice is to use the invoice number, if available, and secondly the date, which she believes is a better control. At the exit conference, she agreed to change the written policies and procedures to reflect this practice.

We also reviewed the City's standard boilerplate language to determine if there is a requirement for a vendor to submit an invoice with the City Contract number or PO number referenced. This requirement is not included. As a result, there is limited assurance that goods or services acquired through a contractual arrangement or PO could be tied to that particular contract.

City Needs to Re-Visit the Issue of Authorization

We noted that there are no controls, other than expenditure review at the departmental level, which would detect or prevent a transaction from being intentionally or erroneously charged to an incorrect center or fund. While there is an established signature authorization process, which in theory should restrict processing of transactions, in practice, transactions will be processed regardless of whether or not the authorization is valid.

We recommend that the General Manager, Financial Services, review the control structure for the processing of check requisitions and implement additional controls. These controls should include:

- Training.
- Statements on check requisition forms indicating the significance of the signature.
- Guidance on adequate documentation.
- Segregation of duties.
- Control over distribution of checks.
- Use of consistent check requisition forms.
- Verification of signature authorization and account coding for expenditures over a certain threshold.

City Needs to Implement More Control Over Check Requisitions

In addition to reviewing guidelines and interviewing staff, we designed our work to include a sample of transactions to determine compliance with

established procedures. We based our conclusions regarding the internal control environment, in part, on what we found in reviewing the sample transactions.

***City Needs to Implement More Stringent Controls
Over the Use of the Check Requisition Form***

The information discussed in this section is the result of a preliminary selection of 10 transactions and selection of 56 additional transactions during fieldwork. Forty transactions were selected using the Excel random number generator. The remaining 26 transactions were judgmentally selected. In making the judgmental selection, we looked at:

- 1) Payments to the same vendor that were charged against multiple accounts (2).
- 2) Transactions that appeared to be split (1).
- 3) Transactions that appeared to be misclassified (4).
- 4) Petty cash amounts appearing to be over the established limit (1).
- 5) Transactions that appeared to be duplicates (4).
- 6) Negative amounts (1).
- 7) Transactions that should have been paid using other means (2).
- 8) Transactions charged against revenue accounts (1).
- 9) Large amounts paid to City employees (2).
- 10) Small amounts that appeared to be inefficient use of the process (2).
- 11) Multiple requisitions to a single vendor, in a single day (3).
- 12) Requisitions to independent contractors (2).
- 13) Transactions payable to employees charged in subscriptions and memberships (1).

From this sample of 66, we concluded that:

1. Current procedures will not ensure that payments for goods or services acquired under an existing PO or contract are tracked against that PO or contract.
 - Eighteen transactions for periodic payments on existing contracts, payments for goods or services under an existing PO or payments under intergovernmental agreements. In each of these situations, the check requisitions did not reflect the contract number or PO number. Moreover, payments for goods or services processed under an existing purchase order or contract should be processed using a purchase requisition. This allows the

expenditures to be tracked against the limit identified when the contract or purchase order was approved.

We discussed this with the Purchasing Director and he indicated that all payments associated with contracts and IGAs could feasibly be tracked through the assignment of a purchase order, including those contracts where the authority lies outside Purchasing.

2. Procedures in place will not result in the cost-effective use of check requisitions. There are no requirements to use petty cash or Procurement Cards for small dollar transactions and employees are not instructed to hold reimbursements or combine invoices.
 - Two transactions for less than \$5 to reimburse City employees for uniform cleaning.
3. Procedures will not ensure compliance with the Procurement Code and rules and regulations established by the Purchasing Division.
 - Two transactions greater than \$2,000, related to holiday parties for City employees in separate departments. According to the Procurement Code, a solicitation should have been conducted by Purchasing.
4. Procedures will not result in an effective segregation of duties. Transactions that do not have appropriate signature authorizations will not be rejected.
 - Nineteen transactions where the same individual served as both the requestor and the authorizer. This practice increases the potential for errors or irregularities to go undetected.
 - Two transactions in which the authorizer was also listed as the payee.
5. Procedures in place will not result in the rejection of requests if sufficient funds are not available in the account indicated to charge the transaction against. According to Financial Services staff, when a request is submitted without sufficient budgeted funds, they e-mail the submitting department/division to inform them of the lack of funds, but will process the transaction to avoid holding up the payment.
 - Two transactions, one for \$30,000, and one for \$54,371, were processed even though there were no available budgeted funds in the account where the expense was recorded.
6. Check requisition forms, that did not reflect the current signature limits, were processed.

- Fifty-one check requisitions did not reflect the correct signature authorization levels. During the audit, we noted various customized authorization levels ranging from a "Level 3" (the lowest range) of up to \$10,000 and a "Level 1" (the highest range) of over \$20,000. In all we found more than eight different combinations of signature authorization levels.

7. Procedures do not require sufficient documentation of transactions.

- Two transactions based on handwritten notes or invoices were processed.
 - In one case, a payment of \$6,000 was for a holiday party. There was no indication who attended the party (i.e., staff only, staff and spouses, or staff and other invited guests).
 - In the other case, a payment was submitted to one of the City's health care providers using a piece of paper with handwritten amounts as support documentation.
- Three transactions for independent instructors. No invoices were attached from the instructor to support the hours or billing rate indicated on the requisitions.
- One transaction, totaling \$4,370 for a holiday party processed with the cash register receipt. No contract was attached outlining the services provided.

8. Financial Services needs to place more emphasis on appropriate signature authorization.

- One transaction was authorized by a General Manager who did not indicate on the Signature Authorization Form that he was retaining authorization to sign for that cost center in addition to delegating the authority to the manager of the area.
- One transaction, authorized by a General Manager that could not be tied to an existing authorization form.
- Fifteen instances in which the authorized signer was not listed for the center charged or in which we could not find Signature Authorization Forms to verify that the person signing was authorized either for the center listed or the amount of the request.
- Four transactions over \$10,000 were signed by individuals who exceeded their authorization.
 - An individual, who was authorized to sign up to \$10,000, signed as the authorized signature for a transaction greater than \$20,000. This same individual prepared and authorized the transaction.

- An individual, authorized to sign for expenditures up to \$5,000⁴, signed as the authorized signer for a transaction greater than \$13,000.
- Two individuals signed as the authorized signature for a transaction exceeding \$200,000. According to the Signature Authorization Form, authorization of transactions greater than \$10,000 is limited to the General Manager.
- A staff member authorized the processing of refunds that exceeded the level of signature authorization. The total volume of the batch was almost \$16,000 but this individual was only authorized for transactions up to \$2,000.

We recommend that the General Manager, Financial Services, implement procedures to ensure better oversight over the processing of check requisitions. These procedures should:

- Ensure compliance with the Procurement Code.
- Encourage use of the most cost effective method of payment for small dollar transactions.
- Reject transactions that do not have appropriate signature authorizations or sufficient documentation.
- Ensure that material transactions are reviewed for sufficient available funds and correct account coding prior to payment.
- Require that all payments associated with contracts and IGAs, regardless of the authority to enter into the agreement, be tracked against a purchase order and processed in the same manner as other contracts.

City Needs to Re-Evaluate Chart of Accounts to Determine if Additional Accounts are Warranted

As part of our review, we also looked at the account to which the expenditure was charged to determine if it correctly reflected the nature of the item. We found that City staff, processing check requisitions or petty cash requests, do not appear to fully understand the appropriate account to charge when completing the paperwork for an expenditure.

Moreover, we found that the City's attempt to limit the number of accounts in use had the potential to result in misclassification of transactions. For example, there is no account set up to track the costs of food provided to employees or for business lunches not associated with a conference or training event. As a result, these expenses are recorded in various locations.

⁴ It should be noted that there is no authoritative guidance that provides for the establishment of a signature authorization level of \$5,000.

It would be difficult, if not impossible, to accurately determine how much the City spends for meals, snacks, and lunches. The same holds true for expenses such as embroidered shirts provided to employees as awards, team recognitions, or as “unofficial” uniforms. In addition, there is no way to identify costs related to various holiday functions arranged by different departments throughout the organization.

The following summarizes what we found. All examples were from the 26 judgmentally selected transactions. Because one transaction was related to reimbursement of petty cash expenditures, examples from that item are listed separately.

Transactions Processed on Check Requisitions

- Two transactions, over the informal procurement limit, for employee holiday parties.
 - One was split with the portion of the charge related to one department charged to Office Supplies. The remaining charges were posted to Safety and Incentive Awards.
 - One charged to Other Contractual Services.

There is no account within the Chart of Accounts that reflects the use of City funds for staff holiday parties. According to the description for Safety and Incentive Awards, this account is to be used for payments made under safety programs and contests.

- Two transactions for printing and graphics.
 - One was posted to Postage and one was posted to Contractual Construction-Buildings.

According to the City’s Chart of Accounts, these charges should have been posted to Printing, Photocopy, and Graphics.

- Two transactions for the purchase of safety related items.
 - One transaction for the purchase of safety shoes was charged to Other Operating Supplies. The other, a transaction for the purchase of safety glasses, was charged to Safety and Incentive Awards.

According to the Chart of Accounts, expenditures related to safety clothing and glasses should be charged to the account for Clothing.

- One transaction for the purchase of inventory for resale was posted to Educational and Recreational Supplies.

There is no account within the Chart of Accounts that reflects the purchase of inventory for resale at McCormick Railroad Park

We discussed this with the Accounting Manager, and as an alternative, agreed that a commodity account could be set up to record inventory purchased for re-

sale that would segregate these expenditures from those related to park operations.

- Two transactions for copier lease and maintenance.
 - Both were posted to Other Professional Services.

There is an account for the posting of copier lease and maintenance; however, City staff are informed that only Financial Services can post transactions to that account.

Petty Cash Slips Attached to a Check Requisition for Reimbursement

- Four transactions for purchase of meals and snack items.
 - Two were charged to Same Day Training even though the meals were not related to training.
 - One, for snacks, was charged to Other Office Supplies.
 - One, also for snacks, was charged to Minor Equipment.

There is no account in the Chart of Accounts that reflects the use of City funds for snacks during internal staff meetings, interview panels, or meals during the day when only City employees are in attendance (i.e., a lunch meeting between two City employees).

- Three transactions for uniform embroidery and silk screening.
 - Two were posted to Safety and Incentive Awards and one was posted to Other Operating Supplies.

There is no account that reflects the cost of shirts and ancillary embroidery and silk screening for clothing provided to City employees.

- One transaction for parking posted to Car Allowance/Mileage Reimbursement.

According to the Chart of Accounts, parking necessary to attend same day conferences is to be charged to Same Day Training/Business Conferences.

We recommend that the General Manager, Financial Services, initiate a review of the City's Chart of Accounts to determine whether or not it would be beneficial to add additional accounts for transactions such as food and meals for City employees, holiday parties, and gifts provided to employees as incentives.

In addition, set up a commodity account to record inventory purchased for re-sale in order to segregate these types of expenditures from those related to park operations.


EXHIBIT 1

| | | |
|-------------------|-----------------------|------------|
| United Healthcare | | |
| February 2000 | | |
| 188 | Single | 172.11 |
| 33 | Spouse | 380.34 |
| 100 | Children | 284.02 |
| 64 | Family | 516.32 |
| 385 | | |
| | | 106,354.38 |
| add | | |
| 2/14 | F | 516.32 |
| | F | 516.32 |
| 1/31 | F | 516.32 |
| | S | 172.11 |
| | POOR QUALITY ORIGINAL | 172.11 |
| delete | S | (172.11) |
| | S | (172.11) |
| change | | |
| 1/31 | Parent to Family | 232.30 |
| 1/11 | Spouse to Family | 135.98 |
| | Parent to Family | 232.30 |
| 5 Retirees | | 1068.78 |
| | | 109,572.70 |
| Retro adjustment | | 444.12 |
| | | 110,016.82 |
| 6 Cobra | | 1032.66 |
| 399 | | 111,049.48 |

SOURCE: Accounts Payable

EXHIBIT 2

SCOTTSDALE
(480) 970-1860
PHOENIX
(602) 253-9577



OREGONOS
PIZZA BISTRO

TEMPE
(480) 858-0501
FLAGSTAFF
(520) 773-8600

3622 N Scottsdale Rd
Scottsdale, AZ 85251


INVOICE
5115

DATE: 12-8-00 ORDER NO. _____
SHIP TO: _____
Contact: Y Steill, K Ekblaw

TO: City of Scottsdale
Planning Systems
Holiday Party

| SALESPERSON | DATE SHIPPED | SHIPPED VIA | F.O.B. POINT | TERMS |
|-------------|--------------|-------------|--------------|-------|
| MARK | 12-8-00 | | | |

| QUANTITY | DESCRIPTION | UNIT PRICE | TOTAL |
|---------------------------------------|--|------------|---------|
| > | Food provided to include Appetizers / soft drinks / main course / door prizes. Package includes Free valet - Live entertainment (BAND) 5:30 - 9:30 pm (200 attendees) Includes - setup, decor, tax + tip | total \$ | 6000.00 |
| <p>Thank you, Happy Holidays!</p> | | | |



To Reorder Call
1-800-225-6380

THANK YOU

SOURCE: Accounts Payable

SCOPE AND METHODOLOGY

The objectives of the Check Requisition Audit are to determine if check requisitions are processed in compliance with Procurement Code, guidelines, policies, and procedures, determine if guidelines, policies, and procedures are sufficient to provide adequate controls, and determine if check requisitions are authorized and supported with adequate documentation. The audit is a component of a City Purchasing review.

We interviewed staff and reviewed the City Procurement Code, AG #285, Signature Authority, A/P policies and procedures, and both Purchasing and A/P websites to gain an understanding of the check requisition process. In addition, we analyzed the population of check requisitions to identify any items warranting further review.

We limited the scope of our audit to transactions paid during calendar year 2000. Financial Services staff provided us with a database of all transactions exclusive of items matched against a purchase requisition. This database consisted of approximately 47,000 line items with a value of almost \$144 million. We were not able, however, to determine the exact number of check requisitions since multiple check requisitions can be combined on one check, and multiple line items may be on one check requisition.

Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III, Scottsdale Revised Code, § 2-117 *et. seq.*

Preliminary Survey

Test 1

Objective: To determine if guidelines, policies, and procedures are sufficient to provide adequate controls.

Method: Reviewed the Procurement Code, the Check Requisition Guideline posted on the Purchasing Intranet Site, City Signature Authority AG #285, A/P policies and procedures, Signature Authority Form, and the Check Requisition Form.

Criteria: The City should have well defined policies and procedures in place to set consistent standards for employees. This should include a clear definition of what can be processed on a check requisition, when Purchasing involvement is required, what documentation is required, and who can authorize payment.

Results: A/P criteria states that check requisitions may be used when Purchasing involvement is not required. However, the "Frequently Asked Questions" section of the Intranet site indicates that check requisitions can be used for purchases over \$10,000. The Procurement Code requires the solicitation to be conducted by Purchasing when the cost of merchandise or services is in excess of \$2,000. The discrepancy between information posted on the Intranet site and the Procurement Code will lead to inconsistent application of intended procedures.

AG #285 directs that all procedural materials should be reviewed and approved by at least one level of management higher than the preparer, which implies that an authorized signature would be someone at least one level higher than the preparer. We noted that there were no instructions on the check requisition form that would advise someone that the authorized signature would be a level higher than the preparer. In addition, the Signature Authority Forms maintained by Financial Services are not dated and do not have authorized employee signatures on them.

Test 2

Objective: Conduct a preliminary test using the database provided by Financial Services to gauge the effectiveness of controls and determine if the sampling methodology can be used.

Method: Selected ten transactions using Microsoft Excel random number generator. Obtained copies of the transactions by searching the microfilm files maintained in Financial Services. Reviewed documentation using criteria identified.

Criteria: According to the Signature Authority AG, the authorizing signature should be different (one level higher) than the person making the request. No transaction should be greater than \$20,000 unless certain criteria are met. Check requisitions should evidence a date stamp. Appropriate documentation should be attached. The person signing as the authorized signature should be listed on the Signature Authority Form.

Results: Eight of the ten transactions selected were the result of the submittal of a check requisition.

Of these eight:

- Sufficient documentation was available to support the transactions.
- All contained evidence of the A/P date stamp.
- Two were for transactions greater than \$20,000. One, the payment for the purchase of property was appropriate for the use of a check requisition. The other, payment under an existing intergovernmental agreement, could have been set-up as a purchase order and processed using a system generated purchase requisition.
- Three were authorized by individuals who were not listed as authorized signers.
- Five did not evidence appropriate segregation: the preparer was also the person authorizing the transaction.
- Six were processed on forms with inappropriate signature authorization forms.
 - Four reflected "Level 2" signature limits of \$5,000.
 - Two reflected "Level 2" signature limits of \$5,000 to \$10,000.

Fieldwork

Objective: To determine if check requisitions comply with Procurement Code, guidelines, policies, procedures, and are authorized and supported with adequate documentation.

Test 1 Test controls to prevent erroneous transactions.

Method: Using database obtained from Financial Services, sort by vendor and review for transactions that appear to meet the following criteria:

- Appears to be posted to wrong account.
- Appears to be duplicate or split transaction.
- Amounts to petty cash cashiers over set limits.
- Negative transactions.
- Mileage reimbursements.
- Large transactions payable to City employees.
- Small transactions that appear to be appropriate for petty cash or other payment alternatives.
- Transactions charged to dues and subscriptions but payable to City employees.
- Recurring payments to individuals.

Results:

- Transaction for Brunswick Lanes (potential split transaction).
 - No exception taken: the multiple charges to various centers are a reflection of the different departments participating in the event. However, the transaction exceeded informal procurement limits and should have been solicited by Purchasing (holiday bowling party for a total of \$4,370).
- Transactions to IKON and transactions to E. Klein (potential duplicates).
 - No exception taken: each transaction was a valid payment. The payments to IKON represented two consecutive months of a copier lease. The payments to

E. Klein represented reimbursement for two different training programs.

- Check requisitions for mileage reimbursements.
 - No exception taken: payment method was appropriate. However, one transaction, for parking at a training event, was misclassified.
- Transaction posted to revenue accounts.
 - No exception taken: City practice is to charge refunds against revenue instead of contra accounts. According to Financial Services, the volume of refunds is immaterial and would not justify a separate account.
- Large dollar transactions payable to City employees.
 - No exception taken: transactions were appropriate. Two payments were replenishment of checking accounts established in the Police Department. The other requisition was replenishment of the petty cash fund maintained at Purchasing.
- Requisition payable to City employee charged against subscriptions and memberships.
 - No exception taken: transaction appropriate. However, the subscription and memberships account does not appear to accurately reflect the nature of the transaction. This requisition was processed to reimburse the cost of a certification program after the employee successfully passed the test.
- Multiple line items to same vendor processed on same day.
 - No exception taken: valid transactions resulting from the cancellation of enrollment in multiple classes offered by Community Services.
- Transactions to independent contractors.
 - Exception taken: no documentation attached to support payment. These requisitions were processed to pay instructors for leisure education classes. It was noted that the two individuals selected in the judgmental sample had more than 20 transactions processed during the last calendar year. Payment to one vendor exceeded \$20,000 and the other was more than \$16,500.
- Six potentially misclassified transactions.

- Exception taken: two transactions for blueprinting mis-classified. One to postage and one to contractual construction.
- Exception taken: two transactions for safety items (shoes and glasses) mis-posted; one to other operating supplies and the other to safety and incentive awards.
- Exception taken: one transaction for a holiday party posted to other contractual services. This transaction, for \$6,000, contained no evidence that Purchasing conducted a solicitation.
- Exception taken: one transaction for inventory for re-sale posted as an expense item.
- Small transactions more appropriate for other methods of procurement or payment.
 - Exception taken: two requisitions for reimbursement to employees for uniform cleaning. Use of petty cash would have been more appropriate.

Test 2 Test compliance with established policies and procedures.

Method: Using database obtained from Financial Services, sorted line items by the amounts set by the Purchasing Code: \$0 to \$2,000, \$2,000 to \$20,000, and \$20,000 and up and used Excel's random selection tool to generate a sample of 10 from each group for a total of 30 transactions. As well, review transactions selected in Test 1. Total sample size: 56.

Obtain documentation maintained by Financial Services. Review documentation and determine whether the transaction was appropriate, properly authorized, charged to the correct account, and adequately supported.

Criteria: Only transactions that adhere to limits established by Procurement Code should be processed on check requisitions. Contractual arrangements should be set-up with a purchase order number and paid with purchase requisition. Transactions should contain adequate supporting documentation, be properly authorized, and charged to the correct account.

Results: Several issues complicated our review of transactions. Because of these issues, some questionable items may be interpreted differently.

- We found that not all centers were listed on the Signature Authority Forms. For example, a special account like 00621 – Water Development Zones B-E - could not be found.
- There were no actual signatures on the Signature Authority Forms to compare signatures against, and the forms are not dated so we could not determine if the information was current.
- The Signature Authority AG does not discuss the process to be used when signature authority is delegated on a temporary basis such as when someone is signing in place of another person when they are on vacation or out for some other reason.
- All check requisitions we reviewed had signatures to indicate authorization; however, we noted that four transactions did not reflect a signature in the correct authorization box to correspond to the amount submitted for payment.
 - Three transactions where the appropriate signature authorization box was blank. Upon review, it appears that the individuals had appropriate signature authorization and could have signed at the correct level. These transactions should have been rejected or A/P staff should have made a note that it was determined that the incorrect authorization box was signed.
 - One transaction in where the appropriate signature authorization box was blank; this employee signed in the box for the level he was authorized for, and the transaction should have been rejected for a higher level of authorization.
 - We also noted that the batch processing report for leisure education refunds does not contain an area for someone to authorize the transaction. Instead, the transaction in our sample was processed with a note “O.K. to pay.” It would have been difficult for A/P staff to determine whether or not this individual was authorized to sign for the volume of refunds submitted.
- Seventeen transactions for payments such as Intergovernmental Agreements, existing contracts, or

situations in which there should be an existing contract. Use of a purchase order and requisition would have been more appropriate.

- Payment to ADOT for freeway construction. There is an existing intergovernmental contract governing this payment and use of a purchase order and requisition would have been more appropriate.
- Two payments for the City's grounds keeping vendor. There is an existing contract and a purchasing requisition should have been used.
- Payment for routine delivery of Council packets. This recurring service should be a contractual arrangement and paid using a purchase requisition.
- Payment to the City's consultant for the Air Museum Master Plan. There is an existing contract and payment should have been processed using a purchase requisition.
- Payment to an outside attorney handling a lawsuit for Risk Management. Services of this nature, and in the amount processed, would require a Council approved contract. As such, the invoice should be paid with a purchase requisition.
- Payment to the City's Photo Radar vendor for an on-going agreement to fund participation in the Skyview Sponsorship (charged as advertising). This arrangement should be addressed through a contractual agreement and paid with a purchase requisition.
- Payment to an outside consultant, arranged through the Preservation Division, to address issues with the trail system. This arrangement is addressed through a contractual agreement and should be paid with a purchase requisition.
- Purchase of bus passes from the Phoenix Transit System. This purchase would be more appropriate set-up as a purchase order and paid through a requisition.
- Purchase of library materials (Audio Parade). This purchase would be more appropriate set-up on a purchase order and paid through a requisition.
- Payment to the Chamber of Commerce. There is an existing contract for these services and a purchase requisition would be more appropriate.

- Payment to Scottsdale Healthcare for the City's participation in the LINKS program. According to the Purchasing Director, this was a contract awarded by Council and should have been paid using a purchase requisition.
- Payment to United Health Care, one of the City's benefits providers. There is an existing contract and this payment should have been processed using a purchase requisition.
- One payment to the City's contracted vendor for safety glasses. Transactions of this nature should be set up on a purchase order and processed using a purchase requisition.
- One payment to purchase inventory for re-sale. There is a contract for these items and use of a purchase requisition would have been appropriate.
- Two requisitions for the lease of a copier. The city had a contractual arrangement and use of a purchase requisition would have been appropriate. As well, we noted that these invoices were for two consecutive months of usage and the invoices listed identical number of copies processed for both months.
- Six transactions did not have sufficient documentation.
 - A payment to one of the City's health insurance providers was a handwritten invoice (Exhibit 1), instead of an invoice produced by the vendor.
 - One requisition was supported by an invoice handwritten by the vendor (Exhibit 2) and did not identify who attended the event. There was no contract attached that discussed issues such as insurance or other items appropriate for a catered event. As well, the transaction was greater than the informal procurement limit and should have been processed under a purchase order.
 - Three requisitions dealt with payment of contract instructors. Payments to several contract instructors, are usually processed on one check requisition. None of the payments were supported with invoices or other documentation outlining dates of service or billing arrangements.
 - One requisition, for a holiday party, was supported by a vendor-provided cash register receipt. There was no

contract attached that discussed issues such as insurance or other appropriate items. As well, the transaction was greater than the informal procurement limit and should have been processed under a purchase order.

- Sixteen signatures were considered questionable.
 - One was a requisition signed by the Municipal Services General Manager: his name was not listed on the signature authorization list.
 - Two payments processed by staff in Economic Development: we could not locate an authorization form for these centers.
 - Requisition for development fee credits signed by the Water Resources General Manager: we could not locate authorization forms for the centers listed.
 - Twelve requisitions signed by individuals not authorized to sign for the center where the item was charged, exceeded their authorization level, or in which we could not find the forms.
 - ✓ Requisition for fingerprinting services charged to Customer Service but the individual was not listed as an authorized signer for that center.
 - ✓ Requisition for court surcharges processed by Financial Services staff: the individual signing this requisition was not authorized for those centers.
 - ✓ Payment to the US Army Corp of Engineers for the annual payment for Indian Bend contract processed by Financial Services staff. The individuals signing were not authorized for the center and the signature level exceeded the authorization delegated to them for other centers.
 - ✓ Requisition signed by a Human Resource Systems staff member. This individual was not listed as an authorized signer for the center charged.
 - ✓ Batch requisition for utility refunds processed by Customer Service staff. The combined total of the refunds submitted exceeded the signature level of the individual authorizing the refunds.

- ✓ Payment to the City's grounds keeping vendor: the individual authorizing the transaction exceeded his signature authorization.
 - ✓ Requisition for the pay-off on a damaged leased vehicle: the individual authorizing the transaction exceeded his signature authorization.
 - ✓ Transaction for blueprinting: could not find authorization for individual.
 - ✓ Transaction for holiday party split to various centers: individual not authorized to sign for all centers listed.
 - ✓ Requisition processed for safety shoes: individual submitting payment not authorized to charge to Risk Management center.
 - ✓ Authorization of refunds for classes offered by Community Services: individual authorizing refunds not listed on the signature authority list.
 - ✓ Requisition for refund of temporary certificate of occupancy permit: individual not authorized for center.
- Forty-five check requisition forms were not the City's standard form.
 - Two transactions, greater than \$20,000, included notes within the body of the check requisition, by Financial Services staff, indicating that sufficient funds were not available in the account referenced at the time the payment was presented.
 - Fourteen transactions were prepared by and authorized by the same individual. One of these transactions was a batch run for refunds of class registrations for Community Services and included multiple payees.
 - In one instance, one division had granted "Level 1" (greater than \$10,000), authorization to the Office Coordination Manager.
 - In two instances, departments had granted "Level 3" authorization to "all employees."
 - Two transactions in which the payee was also the person authorizing the transaction. These payments for replenishment of Police checking accounts, and it would be appropriate to require segregation in the authorization of these funds and the person to whom the check is issued.

**APPENDIX A
MANAGEMENT RESPONSE**

Date: October 15, 2001

To: Cheryl Barcala, City Auditor

From: Jim Jenkins, Financial Services General Manager



Re: Management Response – Check Requisition Audit Report No. 0140

We have reviewed your audit report and are pleased that the audit noted no material internal control exceptions. We generally concur with the recommendations. We appreciate your feedback and agree that there are always areas for improvement. Staff was already in the process of implementing improvements prior to the audit to strengthen our internal controls in the areas noted.

It should be noted that Check Requisitions, in almost every instance, are processed subsequent to goods being received or services rendered to the City. Payables staff attempt to meet these City obligations and process all payments in a timely and efficient manner to: 1) meet statutory payment requirements; 2) gain payment discounts when possible to reduce costs to the City; and, 3) maintain positive working relationships with our vendors. We were pleased to note that no findings indicated that any payments were late, directed to the incorrect vendor, duplicative, or for incorrect amounts. Our recent external financial audit, by Cronstrom and Trbovich, P.C., also noted no material internal control exceptions to our payables process and provided a clean audit opinion related to the City's Financial Statements.

We will continue to seek ways to improve our processes, procedures and policies while maintaining positive vendor relationships. We are also in the process of developing new training and communication to help educate City staff on the proper procurement methods and adherence to our internal control procedures. Many of the audit findings relate to transactions of immaterial amounts and relatively insignificant issues so we will carefully consider internal control procedures changes to ensure that the cost of implementation does not outweigh the benefits received by the City and its business partners (vendors.)

We want to thank you and your staff for your efforts on this audit. As a result of the feedback from your staff, we were able to correct some of the deficiencies noted prior to the issuance of this report.